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12. (U) The Japan Economic Scope (JES) is a weekly e-newsletter produced by Embassy Tokyo's ECON section in collaboration with other sections and constituent Posts and published every Friday. It provides a brief overview of recent economic developments, insights gleaned from contacts, summaries of the latest cables and a list of upcoming visitors. This cable contains the November 17, 2006, JES, minus the attachments that accompany many of the individual stories in the e-mail version. To be added to the e-mail list, please email ProgarJ@state.gov.

13. (SBU) METI Minister Calls for Deepening of U.S.-Japan Economic Relations

METI Minister Akira Amari highlighted three ways to deepen U.S.-Japan economic relations at a November 13 lunch held by the U.S.-Japan Business Council.

First, Amari suggested using APEC as a mechanism for strengthening ties. Regarding an APEC-based regional free trade agreement, he repeated the METI line that the Ministry's own "ASEAN+6" concept of regional integration could facilitate the goal of an eventual APEC-wide agreement.

Second, Amari pointed out areas of greater direct bilateral cooperation between the United States and Japan on promoting common interests in East Asia such as in energy and intellectual property protection.

Finally, in response to the Business Council's support for a "high-level, comprehensive, and commercially meaningful" free trade agreement between the United States and Japan, Amari thanked the Council for its proposal and indicated it was worth further study.

Ambassador Schieffer, in remarks following the lunch, stressed that any agreement between the United States and Japan would need to be comprehensive and include agriculture.

4.(U) Keidanren Joins Call for a U.S.-Japan FTA -----

Keidanren, Japan's leading business and industrial association, said it would formally join the recent

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chorus for a U.S.-Japan bilateral FTA on November 21. Keikichi Honda, chairman of the Keidanren committee that handles relations with the United States, told EMIN November 17 that their announcement will encourage the two governments to begin work as soon as possible towards a broad economic partnership agreement.

Honda said the scope of Keidanren's vision is comprehensive, including agriculture and services, but falls short of his personal hope to also incorporate mutual recognition of the professional certification of lawyers, CPAs, and even doctors.

Keidanren follows the ACCJ and the U.S.-Japan Business Council among private sector organizations that publicly are encouraging the USG and GOJ to begin work towards a comprehensive economic cooperation agreement.

15. (U) ACCJ Business White Paper Says Economic Integration Agreement Is Needed -----

The American Chamber of Commerce in Japan (ACCJ) released its "ACCJ Business White Paper: 'Working Together, Winning Together'" last week in Tokyo, calling for further reform and recommending the U.S. and Japan initiate talks leading to an Economic Integration Agreement (EIA).

A first step toward the EIA, the report says, should be to "restructure and reinvigorate" the Economic Partnership for Growth by creating a cabinet level ministerial economic forum to discuss bilateral, regional, global strategic issues concerning the two countries and which offer opportunities for cooperation.

The report also calls for the U.S. and Japan to

establish a new set of U.S.-Japan Economic Cooperation Working Groups to address possibilities for further bilateral economic cooperation, particularly in the areas covered by the White Paper.

The White Paper provides analyses and recommendations on specific reforms in the following areas: macroeconomic issues; the financial system; the healthcare system; physical infrastructure and air transport; information technology and communications; consumer products and food; the legal system; human resources; and government reform, procurement, and privatization; Japan in an integrating Asian economy; and international systems and bilateral economic dialogue.

The last ACCJ white paper on these issues was released in 2001.

For more information see the ACCJ's press release. The full report will be put on the web later.

16. (SBU) Kansai Business Leaders Meet Finance Minister in Osaka; FTAs, EPAs Stressed

Representatives of Kansai's major economic organizations had their first meeting with new Financial Minister Koji Omi in Osaka.

Kansai Economic Federation (Kankeiren) Chairman Yoshihisa Akiyama emphasized to Omi that the importance of the economic relationship between Kansai businesses and the Asian economy, and requested the Minister to consider FTAs and EPAs with Asian countries.

Kansai Association of Corporate Executives (Kansai Keizai Doyukai) Co-chairman, Shunzo Morishita also

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requested the Minister to promote decentralization (doshuseido) and tax resource transfer from the national governments to local governments, important factors for activating local economies.

FinMin Omi mentioned that it would be a priority for GOJ to fix disparities among local governments.

One Doyukai staffer said that it was meaningful to bring the GOJ up to speed on the economic situation in the Kansai and to make requests of the GOJ, but it is more important for the Kansai economy in the long run for business people to strengthen day-to-day relations with the national government to increase central government bureaucrats' understanding of the needs of the region.

Unfortunately, the clout of Kansai business leaders with the GOJ continues to decrease, according to our contact.

17. (SBU) Indonesia EPA Negotiators Near Agreement "In Principle, on Major Elements"

Japan and Indonesia are near agreement "in principle, on major elements" to an Economic Partnership Agreement (EPA), Indonesian Embassy officials told us November 16.

The Indonesian president's impending November 26 arrival -- PM Abe's first state visit -- have kept negotiators motivated.

The officials stated the agreement will include an

unprecedented energy chapter on oil and gas industry transparency, which they called a priority for Japan, and added that Indonesia is looking to improve upon provisions in the Japan-Philippine agreement that allow entry for some nurses and caregivers.

Market access continues to be tough for negotiators, according to the officials, but steady progress has been realized in areas such as services, investment, IPR, government procurement, competition policy, dispute settlement, and improving the business environment.

Although the goal had been to wrap up negotiations by the end of 2006, the officials speculated that the agreement would not be signed before mid-2007, as the Indonesian parliament must finalize new investment legislation before the EPA can be concluded.

18. (SBU) Triangular Merger Issue Still Being Debated

The debate over triangular mergers continues to be a daily topic in the press with the tide beginning to turn against Keidanren.

The Nikkei, Japan's leading business daily, in a November 16 editorial, criticized Keidanren's proposals as placing "unfair restrictions on use of the merger formula."

Nikkei said there were "no reasonable justification for taking any further steps to protect shareholders", and rightly noted that cash takeover bids (TOB) constitute a greater threat of hostile moves against Japanese companies than triangular mergers.

The tone of Keidanren public statements has also shifted in recent days. Vice Chairman Miyahara on November 13 said the Federation "basically supports triangular mergers" but called for "necessary policy measures before the implementation."

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In our many meetings with ministerial officials and Diet members on this issue over the last few weeks, we have detected little sympathy for Keidanren's views. Descriptions of Keidanren's position within the bureaucracy range from "unreasonable" to "eccentric" and Diet members express to us support for increased FDI.

European contacts report similar generally positive reactions to their outreach. EU Ambassador Richardson wrote to Mitarai and all 15 Keidanren Vice-Chairmen warning them of the damage to Japan's investment climate if the government adopts Keidanren's position.

We will continue to call on members of the LDP Judicial Affairs Committee in the coming days.

Meanwhile, the Government's Tax Commission agreed to a basic framework for introducing tax deferral for triangular mergers starting May 2007.

The commission noted that without such deferral these deals would not occur.

19. (SBU) Toyota To EMIN: Major North American Production Increase; Focus on Hybrids Not Flex-Fuel

EMIN Hans Klemm visited Toyota's Tsutsumi Plant and met with the Central Japan Economic Federation (Chukeiren) on November 8.

Toyota Managing Officer Masayuki Nakai said that the opening of the San Antonio Tundra pick-up plant this month, which Amb. Schieffer attended, along with a new factory in Canada and expansion elsewhere will raise Toyota's North American production capacity by 700,000 per year. In 2005, Toyota built 1.55 million vehicles in North America.

Although pursuing flex-fuel vehicle technology, Toyota continues to stress hybrids, assuming that the standard level of ethanol in American gasoline will not rise above 10% in the next decade.

¶10. (SBU) EMIN Discusses Nagoya's Central Japan International Airport

In Nagoya, EMIN also met with the Central Japan Economic Federation (Chukeiren) on November 8.

Chukeiren Director General Kiyoh Kinoshita made a strong pitch for increased passenger service from Nagoya's Central Japan International Airport to U.S. destinations and lamented American Airlines' decision to suspend their Nagoya-Chicago route last fall.

EMIN explained the USG's efforts in bilateral talks to gain new Nagoya-U.S. and Nagoya-Asia cargo routes for two American cargo carriers. Kinoshita expressed the Chukeiren's support for that objective.

¶11. (SBU) Commercial MC Peters' Nagoya Visit Highlights Business Aviation and Consumer Products

While in Nagoya November 7 to give a speech to the Central Japan chapter of the American Chamber of Commerce in Japan, Commercial Minister Counselor John Peters met with the head of Oaklawn Marketing and JETRO and Prefectural Officials.

Oaklawn COO Harry Hill explained how, in just over a decade, the local American-owned television-marketing firm had grown from zero to \$200 million sales per

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year and the largest purchaser of television time in Japan.

Hill expressed enthusiasm for working with the Commercial Service to find more ways to present American products, particularly from SMEs, to Japanese consumers.

During a call by MC Peters, Nagoya JETRO Chief Director Hiroki Matsumoto detailed the strong state of the regional economy and said that, despite JETRO's current focus on increasing inbound FDI, the organization continues to promote imports of goods and services, not least for their positive impact on investment.

Peters also met with Aichi Prefecture Vice Governor Makoto Nishimura to move forward with planning for the February 9, 2007, National Business Aviation Association (NBAA) Air Exhibition in Nagoya to be co-organized by the Commercial Service and Aichi Prefecture.

Vice Governor Nishimura, who attended the NBAA convention in Orlando this month, pledged to work

whole-heartedly to make this joint enterprise a success and to expand the business aviation market in Japan.

¶12. (SBU) Dreamliner Production Takes Off in Central Japan

"The biggest industrial project ever undertaken by an American firm in Japan," is Boeing's description of 787 Dreamliner fuselage section and wing production by its Japanese partners in the Nagoya area.

During separate visits, Ambassador Schieffer and EMIN saw and discussed how production of major 787 components in Central Japan is getting underway using first-ever processes for carbon composite aircraft.

Those components will be flown on the world's largest cargo aircraft to Everett, Washington, where, starting next year, final assembly of each Dreamliner is to take place in just three days using an adaptation of Toyota's just-in-time production system.

¶13. (SBU) Mitsui & Co. Confident Russia Will Allow Sakhalin 2 to Continue

On October 27 Econoff met with Mitsui & Co. General Manager of Planning Ken Yamaguchi and General Manager of Sakhalin Development Toru Matsui to discuss Mitsui & Co.'s investments in the Russian Sakhalin 2 oil and gas project.

(Note: Sakhalin 2 is owned by Sakhalin Energy, a consortium consisting of Royal Dutch Shell, which holds a 55 percent stake, Mitsui & Co. with 25 percent, and Mitsubishi Corp. with 20 percent. Sakhalin 1's primary shareholder is ExxonMobil.)

Matsui believes that the Russian Ministry of Natural Resources and Energy has no intention of nullifying the Sakhalin 2 project over environmental violations. He identified the real issues as the huge cost overruns of the project and Russian gas major Gazprom's desire to become part of the project.

Matsui also commented that the term "energy nationalism" did not apply to Japan, adding that the Japanese government has very little influence in Japan's energy market.

¶14. (SBU) Union Leader Says Most Labor Legislation Won't Be Ready for 2007 Diet

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Of the major pieces of labor legislation the Ministry of Health, Labor, and Welfare (MHLW) wishes to present in the regular 2007 Diet session, only the new Labor Contracts Law is likely to be ready for consideration, a senior official of one of Japan's largest labor unions told Econoff November 13.

The official, who sits on MHLW's Labor Policy Council, said that differences between union and management positions remain too large to be resolved in time.

He singled out two issues as key sticking points in negotiations to revise the Labor Standards Law: white collar exemptions and monetary settlements in lieu of employee re-instatement.

Both are top priorities of the American Chamber of Commerce in Japan (ACCJ).

115. (U) Patent Harmonization Progress

At the annual Trilateral Meeting of the U.S. Patent Office (USPTO), the Japan Patent Office (JPO) and European Patent Office (EPO) in Tokyo on November 16, the three agencies announced several small but significant initiatives that will save time and money for patent applicants, including agreeing to standardize the format for patent applications among all three offices starting in 2007 and electronic exchange of some of the documents needed to file in a second or third patent office.

The three Patent offices agreed to conduct a comparative study on examination practices, an important step towards the goal of harmonization of patent examinations.

They recognized the strategic importance of access to Chinese patent documentation and the three agencies agreed to urgently consider how make this access efficient and easy.

The USPTO and JPO are able to move more quickly than the EPO can, and the two offices are actively working towards the mechanisms that will permit mutual recognition of patent examinations.

USPTO experts, however, said privately that the Japanese press has consistently misrepresented the U.S. position by wrongly reporting that the USPTO has already agreed to shift from a first to invent to first to file system.

116. (U) Foreign Investment in the Regions: Seattle-Based Lindal Cedar Homes Establishes Presence in Hokkaido

In late October, Robert W. Lindal, CEO of Seattle-based Lindal Cedar Homes, visited Niseko village, located about 100km southwest of Sapporo, to survey the construction of four U.S.-style vacation homes.

The construction of the homes uses natural materials imported from North America to help the buildings blend in with their environment.

Consul Hillman and EconFSN Baba accompanied Mr. Lindal, and the Hokkaido Shimbun interviewed Mr. Lindal and Consul Hillman.

The newspaper ran an article based on the interviews that highlighted the homebuilding project as an example of increased U.S. investment in the region.

The company plans to build four more homes on 1.6

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hectares of land it has already purchased next to the current development zone.

117. (U) Q3 GDP Data Released

While headline GDP figures were higher than expected, at two percent annualized, final domestic demand contributed -0.9 percentage points, due primarily to weak consumption.

Significant contributors to growth were net imports (1.6 percentage points) and inventory accumulation (1.2 percentage points).

